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AUTHOR Bonacich, Edna; And Others
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ABSTRACT

The purpose of this paper is to describe the character of small business among Koreans in Los Angeles, to examine the means by which Koreans are able to enter small business in an economy which clearly is moving in the opposite direction, and to consider why it is that immigrant small business should flourish within monopoly capitalism. Korean entrepreneurs concentrate heavily in trade and service. Their businesses are small in size and rely little on wage labor. Their clientele is not confined to the ethnic community. These characteristic suggests that Koreans serve as an example of the role of middleman minorities in advanced capitalism. Three possible forces within U.S. monopoly capitalism which encourage Koreans to enter small business are considered. The first is that the system helps to create Korean small business, (1) using Koreans to play a middleman role to the masses, especially low income minorities, (2) helping to distribute corporate profits, and, (3) bearing the brunt of hostility, crime, and low profits accruing to retailers in poor areas. The second approach is to see the monopoly capitalism as somewhat porous, leaving niches which the enterprising small businessman can take advantage of. A third interpretation is that Koreans actively create small business niches within monopoly capitalism. (Author/JM)

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Small Business among Koreans in Los Angeles, by Edna Bonacich, Ivan Light, and Charles Choy Wong.

In 1965, the Immigration and Naturalization Act was passed, abolishing discriminatory quotas based on national origins. An unanticipated consequence of the new law has been a sharp rise in immigration from Asia (Boyd, 1974). After a three-year phase-out of the old system, Asian immigration jumped to twenty percent of the total in 1969, and by 1974 comprised one-third of all entering immigrants. The total number of Asian immigrants to enter the country in the ten year period (1965-74) was 832,453 (U.S. Department of Justice, 1974:Table 14).

As a result, a virtually new ethnic minority has emerged: the Koreans. Prior to the change in law there were a few thousand Koreans scattered around the country. Now they are coming in at a rate of over 20,000 per annum, making them the third largest entering group, following Mexicans and Pilipinos. It is now estimated that there are about 270,000 Koreans in the United States (Yu, 1976). Los Angeles has the largest concentration, with approximately 70,000, and is considered to be the Korean center of the country.

Asians who came to the U.S. prior to 1924, when immigration was effectively cut off, showed an unusual propensity to enter small business (Light, 1972). The new immigration from Korea and other Asian countries is very different from the old in two important ways. First, the immigrants are no longer an uneducated peasantry. Indeed, the median school years completed is higher for Koreans than the U.S. population as a whole (U.S. Department

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of HEW, 1974:138), and many Koreans enter with professional training.

Second, the context into which the immigrants are moving has changed dramatically since 1924. The U.S. economy has been transformed from one in which there was considerable small business and self employment, to a highly centralized economy with a small number of owners of large amounts of capital. The vast majority of the population has become wage earners (Special Task Force to the Secretary of HEW, 1973:21). Centralization has been accompanied by increasing efficiency. Technology has been introduced in many phases of production and distribution, increasing speed and reducing error. Scientific management has led to greater control over the work process (Braverman, 1974). Vertical integration, linking the production and distribution process under one corporate umbrella, has increased the reliability of supply and eliminated the middleman. As a result, costs have been cut, seeming to undermine the viability of small business.

Despite these forces, Korean immigrants show a marked propensity to enter small business. It is the purpose of this paper to describe the character of small business among Koreans in Los Angeles, to examine the means by which Koreans are able to enter small business in an economy which clearly is moving in the opposite direction, and finally, to consider why it is that immigrant small business should flourish within monopoly capitalism.

The Character of Korean Business

The 1975 Directory of the Korean Association of Southern California lists over 1,300 "firms." Some of these (47 alumni

associations, 72 churches, and 100 non-profit associations) are not, strictly speaking, businesses, though in some cases, as in the minister of an independent church, the job resembles self employment. Even if we eliminate these marginal cases, the directory lists over 1,000 businesses, and it is incomplete. Indeed the Korean Association plans a new, more complete directory which they expect will include another 1,000 businesses. A vernacular newspaper, Dong-a-Ilbo (10/28/75) notes that many Koreans are not participating in the directories and estimates the true number of Korean businesses at 4,000. And the figure is constantly increasing. "Hardly a week goes by without the 'grand opening' of a new store-front with hangul (Korean alphabet) signs proclaiming grocery stores, restaurants, barbers, hamburger stands, gas stations, or other small business" (Subcomittee on Equal Opportunities, 1974:183).

Although there are clearly "many" Korean businesses in Los Angeles, are Koreans more likely than others to enter small business? Using the 1970 census estimate of 4.4 Koreans per household (U.S. Bureau of Census, 1973:180), a population of 70,000 would mean there are about 16,000 households in the community. If the estimate of 4,000 businesses is correct, then about 25 percent of Korean families are in business for themselves. For the U.S. as a whole, in 1973, eight percent of males 16 years or over (a rough estimate of heads of households), not engaged in agriculture, were self employed (U.S. Bureau of Census, 1974:Table 567).

Korean business concentrates in certain lines, such as wholesaling, retailing, service "shops" (e.g., barber shops and restaur-

ants), and the independent professions. Koreans tend to work in "middleman" occupations, mobilizing resources to provide a service to a client which the client might have provided for him- or herself. For example, Korean maintenance companies provide janitorial services to large office buildings, not unlike labor contractors of old. Or real estate agents specialize in locating businesses around the city for Koreans to purchase. There is some light manufacturing, especially garment industry subcontracting, in which the enterprise takes on one small part of the production process, sewing, and which from the entrepreneur's perspective again resembles labor contracting. On the whole Koreans avoid manufacturing or heavy industry. More generally, they avoid concerns which tie up capital, prefering more liquidable lines.

The single most popular line, until very recently, was the wig business. One hundred and forty are listed in the directory and we were told the real figure is more like 200, about 50 of which are importers and wholesalers to Korean retailers. Even more impressive, as of mid-1975, 90 to 95 percent of all wig shops in the city were owned by Koreans. The group "monopoly" rests, in part, on the fact that, since wig production shifted from relying mainly on natural hair to synthetics, Korea has come to produce 70 percent of the world's wigs. Other popular businesses include gas stations (134 listed in the directory), grocery stores (107), restaurants (78), and liquor stores (22 but believed to be severely undercounted).

Despite self employment, Korean businesses are not all independent. A number, such as gas stations and some restaurants (e.g.,

hamburger stands) are franchised from larger corporations. Similarly, insurance agencies (32 listed) may be branches of larger companies.

Korean firms are small. One indication of small size is the business census (U.S. Bureau of Census, 1972:Tables 2 and 4), which enumerated 1,201 Korean businesses in the nation and 398 in Los Angeles. Mean gross receipts were found to be $54,820 per year, and 79 percent of Korean firms reported no paid employees. In addition, in a study of 278 Korean businesses in the Olympic area (the area of highest concentration of Koreans in Los Angeles), Kim (1975:40) found that 93 percent had ten employees or less, 68 percent had total assets of less than $50,000, and 47 percent, total assets of less than $20,000.

Although Korean business is mainly small, there are some exceptions, especially among trading companies, import-export establishments, and wholesale firms, e.g., Kim (1975:36) found two such firms with assets over $1,000,000. Even so, the firm itself can still be small. We interviewed one clothing importer who had received over $3,000,000 in bank loans and claimed an annual sales volume of $10,000,000. Nonetheless his offices were small and he employed only two or three workers. Acting as a middleman between big, corporate producers in Korea, and large retailers here, his firm was still a "small business."

Koreans make up a significant portion of the clientele of Korean businesses. Kim (1975:30-31) estimated that slightly over half of the customers of Korean businesses in the Olympic area were Korean, which is not surprising since the Olympic area is

also the center of Korean residence. But there is some variation in clientele by line of business. Restaurants and grocery stores cater more to Koreans; gas stations, liquor stores and wig shops, to non-Koreans. Entrepreneurs often change the ethnicity of their customers, as they switch, for example, from gas stations to grocery stores, or from grocery stores to liquor stores. These shifts occur fairly frequently, suggesting that a Korean clientele is not essential.

We found some evidence that Korean firms which do not service other Koreans tend to have a disproportionately large low-income minority clientele. Korean-owned wig and liquor stores, in particular, locate in black and Chicano areas. Having a poor minority (and perhaps poor white) clientele suggests that Koreans may be playing a "middleman minority" role, acting as a commercial and service class to the poorer strata of society, and bearing the brunt of their hostility.

In sum, Korean entrepreneurs concentrate heavily in trade and service rather than in the production of commodities. Their businesses are small in size and rely little on wage labor. And their clientele is not confined to the ethnic community. These characteristics suggest that Koreans are becoming a "middleman minority" (Bonacich, 1973). They serve as an example of the role of middleman minorities in advanced capitalism.

How Korean Business is Established

Korean immigrants are highly educated, but informants assured us that they do not have specific business skills when they arrive. In this respect, they do not differ from pre-1924 Asian immigrants

of the peasant class, although their literacy admittedly gives them an enormous advantage in acquiring the tax, accounting, and marketing skills they need. Early Asian American communities relied upon thrift and hard work, and communal cooperation to provide a competitive edge for their business enterprises. The Koreans use those and some new methods too.

Thrift and Hard Work. Koreans are thrifty and they work long hours. These qualities create a significant portion of the capital they invest in their businesses. Some Koreans do arrive with business capital in hand, despite government restrictions on the amount they can take out. One method is to smuggle out capital in violation of the law. Other Koreans enter the U.S. after working in West Germany or South Vietnam, and having amassed some capital there. Our informants insist, however, that the most common pattern is to arrive with little, and by dint of strict economy, to save $10,000 or $20,000 for investment in a small business. Korean women typically work in garment factories, while their husbands may carry two jobs such as gas station attendant and janitor. Wages in these occupations are low, so saving is hard. An aspiring entrepreneur must make considerable sacrifices to get started.

A Korean wage-earning family is likely to work more hours than the average American wage-earning family. Long hours continue once the business has opened. Korean businesses stay open 12-16 hours and on weekends and holidays. They make much use of unpaid family labor. In addition, a business sometimes receives help in the form of babysitting by a grandmother, either here or in Korea. The immigrants work so hard that their health suffers. "According

to a report made by the Korean Doctors' Association in Southern California, most of the immigrants are neglecting their health in the midst of struggle for survival in the new land" (The New Korea, 3/6/75).

Communal Resources. Koreans form a highly organized community. There are numerous associations which form hierarchies and overlap. Terry and Stull (1975:34-5) report nine out of ten Koreans belong to at least one organization, and most to more than one. Our data indicate that the Korean community has four times as many voluntary associations, per capita, as the rest of Los Angeles county. At the pinnacle of the community is the Korean Association of Southern California, with a membership of about 5,000 families, and coordinating 50 constituent groups. Especially important, from the viewpoint of business development, are occupational and trade associations. There are at least 22 of these, including such organizations as the Korea Hair Product Association of America or the Korean Food Association of Southern California.

Community associations grease the wheels of Korean business. Even churches, alumni clubs, and other formally non-economic groupings, link their members to the Korean subeconomy by bringing people together and providing chains of communication. They also channel and control motivation, encouraging members to honor their personal and business commitments within the community. The high visibility of each individual due to multiple memberships enhances social control, hence that priceless resource, trust.

The community is able to generate and distribute several resources more efficiently and cheaply than are members of the amorphous surrounding society. For example, through the institution

of rotating credit, called gae among the Koreans (Terry and Stull, 1975:37-9), participants are able to generate interest-free capital. Another example is the practice of labor paternalism. Preference is given to a member of the ethnic group in hiring, but work conditions are poor, the hours long, pay low and irregular, and membership in unions not contemplated. Apart from the guarantee of a job, the worker receives paternalistic treatment, including on-the-job training with a view to setting up a business of his own. In exchange, the employer obtains a reliable, loyal, and cheap worker.

In pre-war Asian communities, Landsmann patronized Landsmann, receiving in return a lower price or easier credit arrangement. Koreans say they do not favor one another in walk-in trade. However, indirect channels provide some economic advantages for Korean clients, by "specials" advertised in the vernacular press, and by referrals coupled with a discount through community organizations.

The Korean language press makes a vital contribution to the circulation of occupationally relevant information. Los Angeles now has four Korean daily newspapers and two weeklies. In addition, local television stations broadcast four hours of Korean programming each week. Business and community institutions are also manifestly interested in helping Koreans find answers to their business problems. The Korean Chamber of Commerce, for example, organizes lecture series and classes in business, accounting, and tax law. The Asian Community Service Center operates a Korean "hotline" which offered counseling to 71 Korean businesses in

1974 (The New Korea, 12/26/74). The amount of business-related information generated in the Korean community far exceeds that available to the average Los Angeleno. As one source states: "One of the ironies of our system is that for all our verbal commitment to the American Dream we seldom teach our youth the basic knowledge that anyone would need who wanted to go into business for himself... Knowledge about self-employment in this country is quite a well kept secret" (Special Task Force to the Secretary of HEW, 1973:147). Not so for the Koreans.

The ability of the Korean community to mobilize its own resources is impressive. However there is another, less rosey, side to the picture. Not only does the community "help its own;" it "exploits" them. There is a flowering of adjustment services, such as business or immigration consultants, whose living depends on the problems and aspirations of newly arrived countrymen. There is a tendency to charge fees for all services. The labor contractor takes advantage of the difficult circumstances of new immigrants to turn a good profit. Indeed the use of unpaid family labor, or non-union low-wage workers, is a form of exploitation. In general, older immigrants climb up the economic ladder on the backs of newer immigrants, a prevalent practice among pre-1924 European immigrants in the east. It is a system that works to everyone's advantage so long as immigration continues. Should the influx from Korea suddenly be curtailed, however, the latest arrivals could be trapped at the bottom of the economic ladder.

Non-Communal Resources. Unlike earlier Asian immigrants, Koreans are determined to get "full value" in services for the

tax dollars they pay, and they are not reluctant to mobilize their political resources to this end. Korean businessmen and women do not only rely on their own or friends' savings for financing; some turn to the Small Business Administration. Between 1971 and 1974 Koreans received 101 SBA loans totaling $10,382,750 (Kim, 1975:42). The Korean community helps members tap non-communal resources. Community organizations and the Korean press direct people to public agencies, such as the Office of Minority Business Enterprise, the Asian American National Business Alliance, and the Interracial Council for Business Opportunity.

The community tries to gain access to government officials to make sure their needs are met. They pressured the Los Angeles Police Department into doubling the police protection in the Olympic area. They induced the mayor to appoint a Korean aide to act as a liaison with the community (The New Korea, 5/22/75). The ethnic press encourages readers to vote and to visit their congressmen if they happen to be in Washington, D.C.

Korean Government. Another resource Korean immigrants can use, which was not available to earlier Asian immigrants, is aid from their home government. The South Korean government encourages emigration with the idea of sending its less wealthy elements overseas and helping them to get rich there. The government helps local businesses in at least two ways. First, it aids in training and dissemination of information; some of the classes in entrepreneurship run by the Korean Association are taught by visiting dignitaries. Second, and more important, it helps to provide capital. There are now two Korean banks in Los Angeles: the Korea

Exchange Bank (specializing in international trade) and the Korea Exchange Bank of California (which is more concerned with local-oriented business).

Korea benefits from the development of local business because it helps to establish export outlets. The Korea Exchange Bank, which deals mainly with local importers of Korean products, has an annual loan volume of $100,000,000. Two lines of export are of especial importance: hair products and clothing. As we have seen, Korea produces most of the world's wigs. Their dominant position depends on the use of cheap female labor which is paid about 50,000 won ($100) per month. "Vertical integration" is prevalent in that Korean importers use local Korean small businesses as their chief retail outlets.

The scale of clothing importation is much larger and of far greater potential importance. According to a number of sources, the Los Angeles garment industry is now controlled by Jews, but Koreans are starting to make a crack in the edifice. Although there is some local manufacture, the Jews depend on importing from "cheap labor" countries such as Brazil and Taiwan. As yet they do not import from Korea, leaving that trade to Koreans. About 20 percent of the clothing imported to the U.S. now comes from Korea. Unlike the wig business, the major outlets are not Korean small shops, but large volume Jewish-owned retailers with multi-million dollar annual sales.

The local Korean press plays a role in Korea's efforts to establish exports. Three of the local papers are versions of Seoul newspapers, with a section changed to provide local news

and advertising. In turn the Seoul papers are sponsored by major corporations and conglomerates in Korea. The Los Angeles versions are shipped back and distributed to the corporate executives who learn of commercial possibilities here. According to a local newspaper editor, the press here plays the role of "an eye on the U.S. economy."

Another benefit to Korea in aiding local business is the sending back of remittances to families in the homeland. The Korea Exchange Bank handles most of these, and reports that it sends back about $5,000,000 per annum.

It should be noted that the Korean government's activities in the local community are not all viewed in a positive light. There is considerable negative sentiment towards the Park regime, which is not surprising since a number of local Koreans emigrated for political reasons. Some of the newspapers are vociferously anti-Park. Thus the community is divided over the government's intrusion.

Why Koreans Engage in Small Business

The most frequent reason Koreans advance for the proliferation of small business among them is the lack of adequate alternatives in wage and salary employment. They face discrimination in the job market, for example, many professionals are unable to obtain state licenses to practice their specialty (California Advisory Committee, 1975). Educated immigrants are forced to work as gas station attendants, janitors, sewing machine operators, nurses aides, and lab technicians. In the face of such unattractive alternatives, self employment becomes appealing.

A second commonly articulated reason concerns the immigration process itself. Establishing a small business is one way for someone on a temporary visa to become a permanent resident. The Immigration and Naturalization Service will adjust the status of persons who are self employed on the assumption they will contribute to the U.S. economy. Once established, the business can be used for sponsoring relatives, since assurance can be given that they will be employed.

Both of the above reasons imply that Koreans enter small business against their will, or are so constrained that they have little choice. We question this, believing that many Koreans would enter small business even if they had better job opportunities and were not faced with immigration problems. Our doubt arises from anomalous stories of well-established professionals in Korea, with a secure reputation and large clientele, who throw over their practice to come to the U.S. and open a restaurant. It seems that Korean immigrants see the U.S. as a land of economic opportunity, and small business as a way to make money. For instance, one of our informants, an engineering student at UCLA, who would not face language or licensure problems if he went into engineering, still plans to open a small business. As he sees it, there is a definite limit on his potential life-time earnings as an engineer, while opportunities are limitless in small business. Paradoxically, Korean immigrants have bought the "American dream" while most natives (judging from the low and decreasing level of self employment) have given up on it.

A possible explanation of the paradox concerns the level of economic development in Korea as compared to the U.S. Koreans

come from an economy where small business is still very much alive. That they aspire to enter it is, therefore, not surprising. The fact that Korea is a poorer country than the U.S. also encourages thrift. Koreans may be willing to live for a while on a level an American would consider low, but which does not compare unfavorably with the Korean level of living.

We believe there is truth to this explanation, yet a puzzle remains. Given that the Korean approach, of thrift and self denial, works and proves there are still opportunities for small business within U.S. advanced capitalism, why do not Americans pursue the same path? The answer, we hypothesize, lies in a subtle issue of consciousness. Monopoly capitalism has made the American people into an army of wage and salary workers who have essentially given up on the American dream. The reason is not just resignation; they are unwilling to pay the costs of small business. How many Americans would be willing to keep a shop open seven days a week, 15 hours a day? The fact is, the American working class has fought long and hard for a comfortable and secure life. They value leisure time and the right not to have to work too hard for long hours. They value job security and the comfort of not having to worry about the job folding. Needless to say, not all American workers have attained these goals, but we would contend that even the unemployed in the ghetto share them (Bonacich, 1976), preferring an eight-hour-a-day job with reasonable pay and fringe benefits, to the risky and hard-working life of the small entrepreneur. For Koreans, in contrast, hard work, long hours, thrift, taking economic risks (admittedly minimized by communal support) are not yet

alien, since Korea has not experienced a labor movement on a scale remotely approaching the American.

Let us now consider the larger system within which Korean small business operates. Are there any forces within U.S. monopoly capitalism which encourage Koreans to enter small business? Three possibilities present themselves. The first is that the "system" helps to create Korean small business. It uses Koreans to play a middleman minority role to the masses, especially low-income minorities, helping to distribute corporate products, and bearing the brunt of hostility, crime, and low profits accruing to retailers in poor areas. A number of points support this interpretation. The policies of the Immigration and Naturalization Service, as we have seen, help to push Koreans into small business, and the SBA provides some of the wherewithal. The largest number of SBA loans to Koreans (33 of 101) were given to liquor stores (Kim, 1975:42), which are quite likely to operate in the ghetto or barrio.

Against this interpretation is the fact that Koreans help to distribute not only American, but also Korean corporate products. In the wig, garment, and some food products industries, they are at odds with local big business. Also, U.S. financial institutions do not unambiguously support middleman-type firms. Despite the large number of SBA loans to liquor stores, Korean garment manufacturers received much larger loans, averaging $450,000 compared to $86,000 for a liquor store (Kim. 1975:42-3). Similarly, private banks favor manufacturing (The New Korea, 1/16/75), suggesting that the middleman role is less than encouraged by big business.

The second approach is to see monopoly capitalism as less active in the development of Korean business. The large corporations leave gaps in the economy which prove inefficient for them to fill. The corner grocery store between two shopping centers, satisfying the demand for the occassional few items needed between weekly shoppings or at odd hours, is a case in point. Similarly, the ghetto and barrio, with high crime rates and credit problems, may be deserted by the corporations for more profitable locations. In other words, the edifice of monopoly capitalism may be somewhat porous, leaving nichos which the enterprising small businessman can take advantage of. This view fits with "dual labor market theory" (e.g., Gordon, 1972), which sees the economy as divided into core and peripheral industries. Korean business falls in the latter category.

Whether the "gaps" in corporate domination will remain is another question. Some would argue that they are technologically determined so that it will never be efficient for big capital to take them over. We are inclined to believe they are signs of uneven development, and will inevitably fall prey to centralizing pressures. The service industries are newer and less "advanced" in their organization, but sooner or later a few large corporations will dominate these too. Meanwhile, Koreans help to fill the gaps with small businesses which are able to run relatively cheaply. Since they tend to keep prices as low as possible, Korean firms make it harder for the big corporations to enter their fields, and can be seen as a retarding influence on the total "monopolization" of the economy.

A third interpretation is that Koreans actively create small business niches within monopoly capitalism. This seems to be the case in a few lines, namely garment industry subcontracting and maintenance companies. In the garment industry, for example, sewing could obviously be done in large factories under assembly-line conditions. That it is subcontracted to small sweatshops, Korean-owned concerns being only one example, suggests they are able to produce the goods for less.

Unlike retailing and service shops, the garment factory and maintenance business have the characteristic of using large labor pools. The firm owners are almost in the business of labor contracting to the large corporations, except that they retain some control over the labor process. The role of the Korean entrepreneur, then, is to help the corporations exploit cheap immigrant labor which, through paternalism and community ties, is kept docile and non-unionized. The middleman-type firm in this case plays a part in creating a "split labor market" (Bonacich, 1972) by helping to keep the immigrants as cheap labor.

Conclusion

Two questions relating to the future remain. First, what will happen to Korean entrepreneurship if, as we predict, monopoly capitalism continues to extend its influence into all niches of the economy? One possibility is that the process will never be complete, as new competitive industries will always be emerging. Another is that Koreans will adapt by running semi-independent shops, such as franchises.

The second question concerns the issue of race relations. Middleman minorities have been notoriously ill-received by the communities in which they reside. They face antagonism from their clientele, business competitors, and organized labor. It is not impossible that Koreans may face some of this, especially if their businesses continue to expand at the current rate, and spread all over the city. At the moment the Koreans are not all that visible, but the day may come when a new anti-Asian agitation surfaces in southern California.

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